PROGRESSIVE SERIES No. 6

FOREIGN AID: A TRAP?

NAVED HAMID

PROGRESSIVE PUBLISHERS
ZAILDAR PARK, ICHHRA, LAHORE

FOREIGN AID : A TRAP ?

by
NAVED HAMID
Lecturer, Department of Economics,
University of the Punjab

Progressive Publishers
101, FEROZEPUR ROAD, LAHORE

~~Price Rs. 1.50~~
Price Rs. 3/-

1st Edition .. .. .. December 1972
2nd Edition .. .. .. June 1974

CONTENTS

Fisco Press, Lahore
Phone : 64148

INTRODUCTION

When the People's Party Government came into power in December 1971, Pakistan had already received 7,141 million dollars in foreign assistance and the outstanding debt amounted to 3,353 million dollars[1] on which the debt servicing due was 257 million dollars,* i.e. more than 40% of our earnings from merchandise exports. The dangers of this excessive reliance on foreign aid had become clear to almost everyone in Pakistan. So much so that even Dr. Anwar Iqbal Qureshi, one time Adviser to Government of Pakistan and a great supporter of foreign aid recently wrote that the full implications of foreign aid were realised by him when the American threat was received in June 1965, by the Pakistan Government, to accept certain terms before flow of funds for the Third Five-Year Plan could start. These conditions were such that no respectable sovereign state could accept.[2]

Besides the political drawbacks of foreign aid, even on economic grounds it offers little to the recipient country. This was pointed out by the U. S. Senator Gaylord Nelson. When talking about the U. S. foreign aid programme he said, "I do not think Uucle Sam is losing anything. I think he is coming out very well. I think, the American manufacturer is coming out very well. I think the poor consumer and the underdeveloped countries we claim we are helping are coming out very poorly". When one AID official remarked that giving AID loans was doing a favour to the developing

*Debt servicing includes repayment of principle and interest charges Of the $257 million due in 1971-72 $151 million was repayment of principal and $106 million as payment of interest. However in May 1971 the Pakistan Government declared a moratorium on conversions and thus the amount actually paid during this period was only $131 million,

countries, he said "I would hate to have anybody do any favours like this to me".[3]

Though most people are aware of the political nature of foreign aid they may not be very clear about its economic implication. Therefore, the purpose of this article is to show that the economics of foreign aid is to lure the developing country into a position of complete subservience to the aid giving country. Once the country starts taking aid its entire economic and political structure is so shaped and directed that instead of moving towards self-sufficiency it begins to rely more and more on the aid giving country. This we call the 'Foreign Aid Trap'.

Most, if not all, developing countries who have received foreign aid have slowly found themselves in this particular trap. Pakistan is no exception. In this article we will show, relying mostly on Pakistan's example, not only how the countries find themselves in the trap but also how the aid giving countries make certain that the development strategy and the policies followed by the recipient country are geared to the achievement of this end. The aid giving country not only gains by ultimately having countries economically and politically dependent on it but it also reaps economic benefits in the very process of supplying aid.

This article is divided into four chapters. In the first chapter we will discuss the implications of the decision to devalue taken by the People's Party Government under pressure of the aid giving countries. In the second chapter we will briefly explain the economic justification of foreign aid as put forward by Western Economists. We will then look at the limitations of their reasoning and see how in actual practice the results turn out to be exactly opposite of what they predict, thus leading the under-developed country into the foreign aid trap. In the third chapter we will show how the policies, which are responsible for the country finding itself in this trap, are forced on them by the aid giving

countries providing foreign aid. Finally in the last chapter we will look into the economic advantages which accrue to the aid giving countries in the process of giving aid.

It may be appropriate at this stage to explain why we have chosen to discuss devaluation separately. There are two main reasons for this, firstly as chapters II, III and IV were written in December 1970 and it is felt that since the the subsequent events do not alter the basic agruments it may be better to discuss the devaluation issue separately rather than to try to integrate it with the more general discussion. Secondly, since devaluation is a very important economic measure affecting almost everyone in the country, and as it was taken under pressure of the aid giving countries it is necessary to understand its implications and the reason for the attitude adopted by the aid giving countries. Also as this chapter practically illustrates the great influence exercised by the aid giving countries on the recipient country, it is hoped that it will help the reader to better appreciate the more general discussion which follows.

CHAPTER I

Implications of Devaluation

The People's Party manifesto is very clear not only about the true nature and purpose of foreign aid but also about the basic economic relationship between the under-developed countries and the advanced countries. It states that "the exploitation of the newly independent countries continued even after independence for the good of all the advanced countries". It is further pointed out that "if an under-developed country bases its developement programme on the conditions set by the neo-colonialist powers it will make little or no progress at all. The terms on which aid is given betrays this underlying neo-colonialist policy".

When the People's Party Government came into power in December 1971 there were two choices open to it (limited no doubt by the extraordinary circumstances at that time). It could either have chosen a policy of self-reliance with greater emphasis on the people or it could continue with a policy of economic development based on large doses of foreign aid. Despite being aware of the dangers of foreign aid it seems that the People's Party Government has made up its mind to adopt the latter policy and is relying on foreign aid even more than the previous governments.

The decision to rely on foreign aid having been taken certain measures including devaluation became inevitable For a long time the aid giving countries had been extert-ing pressure on Pakistan to devalue its currency and do away with the Bonus Voucher Scheme. The aid giving countries, realising that Pakistan desperately wanted aid, utilised the opportunity by making devaluation a pre-condition for aid and rescheduling of debt. That such a

condition was made is clear from a recent press statement of the President in which he complained that we have fulfilled all the conditions laid out by the World Bank and the aid giving countries yet aid is still not forthcoming.

Before we go on to discuss why the aid giving countries have been so insistent on devaluation let us briefly look at its economic justification and examine some of the arguments given in support of it. From an economist's point of view, there seems to be no justification for the extent and timing of the devaluation. The maximum effective exchange rate for exports was Rs. 8.83/U. S.$ yet the new rate was fixed at Rs.11/U. S.$ i.e. 25% higher than even the highest rate available on manufactured exports. If the purpose of this was to increase industrial exports, the timing of the decision was wrong. When the prevailing economic uncertainty and labour unrest the desired increase in industrial production will not be forthcoming. It was even more wrong, because the policies of the previous governments had created a tremendous inflationary pressure in the economy. Devaluation, especially such a large one, would certainly add to this pressure and the resultant price increases would wipe out the gains, if any, from devaluation in a short time.

The argument that it was necessary to get rid of the Bonus Voucher Scheme and free the foreign trade from controls does not hold good. The trade could have been freed from controls by placing all items on tne bonus list, removing all other restrictions and letting the market find its own rate.* If because of large premiums on Bonus Vouchers the scheme had become cumbersome a small devaluation of 30 or 40% would have been sufficient. Even the argument that it was necessary to eliminate Bonus Voucher Scheme because it discriminated in favour of one group in the country is not valid. If the scheme

*The Bonus Voucher Scheme is basically an export promotion scheme. All the undesireable effects which are associated with it have arisen from using it for purpose of import control as well. If for purpose of imports all commodities (excluding banned items) had been put on bonus at an uniform rate the bureaucratic controls and other ill-effects could have been eliminated.

could discriminate in favour of one group it could just as easily be turned around to discriminate against them.

It is clear from the above discussion that devaluation and elimination of the Bonus Voucher Scheme was not really justified, especially at this stage and was undertaken under pressure of the aid giving countries. To understand why these countries were so interested in this it is necessary to discuss the merits and demerits of the multiple exchange rate system (Bonus Voucher Scheme) and the single exchange rate system.

In actual practice there can be no single equilibrium rate of exchange for an under-developed country. This is because an exchange rate at which their primary products are competative in the world markets their manufactured products cannot sell. If the exchange rate is fixed at this level there can be no manufacture exports. However, if the exchange rate is fixed at a point where manufactures are competitive in world markets the primary products would be under-priced in the domestic market and therefore their prices would rise. Since the agriculture sector forms a major part of the economy, a rise in agricultural prices would result in inflation and a general rise in the price level and thus manafactures would once again become uncompetitive in the world markets. Therefore it is essential to maintain at least two rates of exchange one for primary products and another for manufactures.

Since the exchange rate after devaluation is one at which the manufactures are competitive it was necessary to place an export duty on some of the primary products* Thus in reality we are still operating a form of multipe exchange rate system with one rate for raw cotton another for yarn and still another for cloth. And the

*This duty is equal to the difference between their pre-devaluation domestic price and their present world market price in terms of rupees at the new exchange rate.

fixing of export duties can be as arbitary as the fixing of the rate of Bonus. We have thus gained nothing except having replaced a sophisticated system of multiple exchange rates by a crude and clumsy one.

The reader may wonder as to why do the advanced countries so strongly advocate a single exchange rate system for under-developed countries. The reason is simple; the multiple exchange rate system makes it possible for an under-developed country to fix different exchange rates for as many commodities as it likes, according to the market conditions. Thus being able to sell every item at the best possible price the market will pay. The under-developed country does not have to under-price its raw materials in world markets for the sake of selling its manufactured products. In other words the advanced countries have to pay more for the raw materials then they would have to if there was a single exchange rate.

Besides being able to buy raw materials cheaply, devaluation by such a large amount has an added advantage for the aid giving countries, as it gives them greater control over our economy. Foreign aid and debt servicing although remaining the same in terms of foreign exchange are greatly increased in terms of rupees. Since neither the available rupee resources nor the size of the development programme can be increased to the same extent the proportion of the development plan financed through foreign aid and the proportion of rupees resources which go towards paying debt service are substantially increased. This makes it possible for the aid giving countries to exert still greater influence on the plans and policies of the recipient country.

The importance of this can be seen from the annual development programme for 1972-73.[5] The programme envisages an expenditure of Rs. 415 crores in this year. However if the import content of the programme is expressed in pre-devalution prices its size would be Rs. 340 crores. The actual development expenditure in 1969-70 was also Rs. 340 crore, i.e. the same as the

planned expenditure for 1972-73. Despite this fact Rs 301 crore out of Rs. 415 crore, *i.e.* 72% of the development expenditure is to be financed from foreign aid. In pre-devaluation period the portion of the annual development programme financed through foreign aid never exceeded 52%. It is obvious that a country whose three-fourths of the development expenditure is financed by foreign aid and one-third (*i.e.* Rs. 286 crore out of Rs. 851 crore) of the revenue receipts go towards the servicing of external debt can hardly be expected to have an independent economic policy.

CHAPTER II

The Economic Justification for Foreign Aid: The Two Gap Model

The most explicit and well set out model for the attainment of self-sustained growth with the help of foreign aid is that of Chenery and Strout.[6] Simplifying their argument we can say that the country passes through three stages on its way to self-sustained growth. In the first stage the dominant constraint is that of absorptive capacity *i.e.* the economy is so primitive and backward that it cannot invest benefically the minimum amount, 15 per cent. or so, necessary to achieve the required rate of growth of say 5 to 6 per cent. The purpose of foreign aid at this stage is to increase the absorptive capacity of the country by providing technical assistance, training, education, managerial ability, entre-preneur talent and so on. Once the absorptive capacity of the economy has increased sufficently the constraint on growth is that of domestic savings. A country with a low level of income and a large proportion of its population at subsistence level can hardly be expected to save 15 to 20 per cent. of its national income. The suggested way out is that forign aid may be used to supplement domestic savings and fill the gap between domestic savings and the investment required for a reasonable level of growthe. At the same time exports may be less than the imports *i.e.* there is a trade gap, but for a while the savings gap will be greater than the trade gap and during this stage the savings gap is said to be dominant. However, as the economy grows, more and more inputs are require in the form of capital goods, industrial raw materials, etc. Exports cannot keep pace with increasing imports and the resultant difference between the two becomes larger and larger

until it exceeds the difference between domestic savings and the required savings. At this stage the trade gap is said to be dominant and the foreign aid is now required to bridge this gap and in so doing the savings gap is also more than filled. It is then argued that as the economy develops further rising levels of income result in an increase in savings as a proportion of national income until the required rate of savings is attined and the savings gap is closed. Also as development proceeds, first import substitution of consumer goods, then their export and import substitution of capital goods takes place with the result that exports grow faster than the imports and ultimately catch up with them and hence the trade gap is also closed. With the closing of the trade gap the need for foreign aid is also ended.

Pakistan's Experience

The Pakistan Planning Commission using such a model, projected this magic point where no further aid would be required to be at the end of The Perspective Plan i.e. 1985. However, looking at the ten years (1960-61 to 1969-70)—the years in which Pakistan was referred to as a model for other developing countries, a country which was said to have made a break with the past and was well on its way to achieving self-sustained growth—we find that none of the conditions necessary for achieving self-sufficiency as regards to aid have been fulfilled.

Savings Gap

As far as the first stage is concerned i.e. limitation of absorptive capacity, it is applicable only to very backward countries and has never been an important factor in Pakistan.[7] For the second and third stages to be successfully completed certain conditions have to be satisfied. For example, to bridge that savings gap it is required that the marginal rate of savings must exceed not only the average rate of savings but the required investment ratio as well i.e, savings as a proportion of additional income must be more than 15%, the required

rate of investment. But Prof. Anis-ur Rehman and others have shown that this is not happening in most of the under-developed countries. A cross country analysis with 37 developing countries showed a inverse relationship between savings and the net inflow of foreign capital, both being taken as a proportion of gross domestic product.[8a] Another study showed, for eighteen out of twenty Latin American countries examined, that an increase in foreign capital would reduce rather than increase gross domestic savings, other things remaining unchanged.[8b]

Pakistan perhaps provides the most striking example of such a case. Over these ten years it has been one of the most successful of the developing countries in its aid negotiations, and its Gross National Product has increased remarkably. But we find that this has hardly had any impact on its domestic savings which have remained low—in the neighbourhood of 8-10% of the Gross National Product—all through this decade, with no appreciable upward trend.[9] In fact Planning Commission admitted that "the marginal saving rate declined during the Third Plan to less than 10%, this was even below the average saving rate."[10]

Pakistan's performance must be seen against a strategy of development based on the philosophy that inequalities in income are not objectionable but desirable and additional output should be distributed in favour of those groups in the community whose average and marginal savings are thought to be relatively high.[11] This policy was followed with tremendous vigour and the redistribution of income was so pronounced that the standard of living of the average rural inhabitant was no higher in 1965 than it was fifteen years ago and it may have been even lower.[12] The lot of the urban worker was no better, money wages had not shown any significant increase during the fifties and early sixties and had probably declined in terms of purchasing power.[13] The situation has probably worsened for a large majority of the population since then. This means that since 1947

almost the entire increase in income has gone into the hands of selected few and the concentration of wealth has been so great that even Dr. Mahbub-ul-Haq, Chief Economist Planning Commission, who in his book had put forward the case for increasing inequalities of income, was forced to admit that the concentration had gone too far.*

What this shows is that despite resorting to such extreme measures it has not been possible to increase the country's saving ratio. One must therefore conclude that in the foreseeable future there seems hardly any hope of closing the savings gap and under the present economic set up the country will continue to rely on aid to fill this gap.

Trade Gap

Let us now turn our attention to the trade gap. If the trade gap is to become less, and ultimately be closed, it is essential that at some stage or the other exports must grow faster than imports. If we look at the import and export figures over these ten years (Appendix I) we find that although Merchandise Exports have increased from Rs. 1,877 million in 1960-61 to Rs. 3,143 million, in 1969-70 i.e. by 67%, during the same period Merchandise Imports have increased from Rs. 2,611 million to 4,999 million i.e. by 92%.** The trade gap, therefore, instead of becoming narrower has widened over this period. This is not surprising as the nature of development in Pakistan has been such that no other result should have been expected.

---

*Addressing a convention of West Pakistan Management Association he said that at present the economic power is concentrated in the hands of twenty families, who control 66% of the total industrial efforts of the country. 79% of total insurance funds and 80% of the total Bank assets. He added that this should not be allowed to carry on as it is and some reforms are necessary. (Dawn, Karachi, 25th April, 1968).

**In fact imports did not increase very much during the 3rd plan. This was because of the lack of foreign aid and resulted in idle industrial capacity, decline in the rate of growth in the manufacturing sector and most important a falling level of investment. During the 3rd Plan public investment in real prices at best remained constant and private investment actually declined in real terms. (Memorandum, cited in reference 9, p. 2).

Emphasis has been on import substitution in the consumer goods sector and that too mostly in industries which are based largely on imported raw materials. Such a policy has severe limitations. In the first place imports of consumer goods as a percentage of total merchandise imports, after the initial period, have shown hardly any decline i.e. from 22% in 1960-61 to 18% in 1969-70 (in fact they actually increased to 24% in 1967-68). Therefore one may conclude that most of the increase in productive capacity in this sector is going towards the creation of new demand rather than the substitution of the existing one. At the same time there has been rapid increase in the imports of raw materials for consumer goods i.e. from Rs. 316 million in 1969-61 to Rs. 1,305 million in 1969-70 an increase of more than 400%. The investment in the consumer goods sector has also resulted in a rapid increase in demand for capital goods. This has to be meet almost entirely through imports as the domestic capital goods industry has not been developed.

Thus the trade gap from the side of imports shows hardly any signs of closing. The only alternative is a radical change in the industrialisation policy with greater emphasis on building up a heavy industrial base, which until now has not only been ignored but positively discouraged. Some of the ways in which this has been done are: (1) The domestic capital goods industry has never been given protection and has to face unfair competition as import of machinery etc. has been allowed at the official exchange rate which was greatly overvalued for a long time. (2) Raw materials for the use of the capital goods industries were available mostly on Cash-cum-Bonus while finished capital goods were allowed on licence. (3) The Industrial Development Bank of Pakistan and other government institutions normally sanction loans only for the foreign exchange component of the project. Thus the investor prefers to import even that machinery which is available at home because a separate loan for the purchase of domestically produced machinery may be

difficult to arrange*. This policy is being followed primarily on the advice of the aid giving countries whose interest is to keep Pakistan as a dependant country and a market for their own capital goods industry. A glaring example of this is the well known case of the American opposition to the establishment of a steel mill in Pakistan.

Looking at the export side, we find that because of an overvalued exchange rate and increasing demand at home the traditional exports i.e. Raw Jute, Cotton etc. have stagnated.** Although there has been a large increase in manufactured exports, it has been primarily because of the Bonus Voucher Scheme, and is not likely to continue at the same rate in the future. Most of the world markets for manufactured goods today are highly protected markets which allow only a limited quantity of such imports from under-developed countries. "In fact the existing tariff structure of the developed countries discriminates against imports of manufactures and semi-manufactures from low income countries. Tariff rates on manufactured imports from low income countries remain considerably higher than those from developed countries."[14] Pakistan as a new entrant into this market was able to increase its exports initially at the expense of other under-developed countries but once it has estblished its share of this market this rapid increase in manufactured exports is likely to taper of. Thus it seems that Pakistan's export performance in the future is most unlikely to be better than what it has been in the past ten years. Therefore the trade gap which had been widening during this period will continue to do so if the present rate of growth of the economy is to be maintained and increasing quantities of aid will be, required, to bridge this gap, for a long time to come.

*Such items as textile spindles, offset and rotary printing presses, complete ginning plants and sugar mills, road rollers and industrial air-conditioning plants which are made in Pakistan were imported under IDBP loans at the official exchange rate.

**The recent increase in exports is due to a bumper cotton crop and high prices of cotton prevailing in the world markets.

Debt Servicing

The one thing that firmly closes this trap is debt servicing. The weakness of the models used by Chenery, MacEwan and the Planning Commission is that they do not take into consideration debt service but project only the end of the net inflow of foreign aid. Prof, Anis-ur-Rehman, using the most favourable assumption possible*, has calculated that by 1985, the terminal point of foreign aid, Pakistan will be in debt to the extent of Rs. 103,900 million.** If this amount were to be repaid in 30 years (with no further borrowing) the annual payment would come to Rs. 5,300 million[15], which is far greater than the present level of aid, and to make these payments Pakistan would not only have to close the trade gap by 1985 but it would have to generate a Balance of Payments surplus equal to this amount. As this is obviously impossible we will have to borrow more to meet these repayments. The process is cumulative, the debt burden will continue to mount and we will be increasingly at the mercy of our creditors.

This problem is not only faced by Pakistan but also by other under-developed countries. The Pearson Commission has calculated that if the flow of new lending were to remain at the level of 1965-67, with no change in its composition, by 1967 debt service would considerably exceed new lending, except in South Asia and Middle East where they would be about equal.[16] (It should be kept in mind that foreign assistance loans are usually tied while debt service has to be paid in free foreign exchange).

Rescheduling of this debt is always possible, and will most likely take place because it is in the interest of the aid giving countries to retain their hold by allowing this concession rather than losing it entirely by insisting on repayments that cannot be made, but this is no solution of the problem itself as interest and debt will continue

---

*Foreign aid will be available throughout the period at a (concessional) rate of interest of 3% per annum.

**Our present annual foreign exchange earnings are only Rs. 4,500 million. (all figures are at pre-davaluation exchange rate)

to accumulate. The other possible way out is that the country should disown this debt and refuse to make these payments. This, however, is not possible as long as the Government in power, for its own survival, requires the aid and support of these countries.

Conclusion

The purpose of any policy of economic development it to move the economy towards a path of self-sustained growth. What we have seen in this part of the article is that actually the reverse is happening. There is no sign of either the 'Savings Gap' or the 'Trade Gap' closing and at the same time the burden of foreign debt continues to mount. In other words these countries are becoming more rather than less dependent on the aid giving countries. There is a distinct possibility that if this process continues much longer, these countries will be independent in name only. The Foreign Aid Trap is slowly closing upon them.

CHAPTER III

Directing and Influencing Policies in Under-developed Countries

In this Chapter we will try to show that the basic policies of development which Pakistan has been following so far have been dictated by the aid giving countries in general, and the USA in particular, and that these countries exert considerable influence over the framing and implementation of our development plans. The United States House Committee on Foreign Affairs clearly stated this objective when in concluding its list of reasons for providing economic assistance it said, "The most important reason is that nations are determined to develop. Only by participation in that process will we have an opportunity to direct their development along lines that will best serve our interests."[17]

This is done in the following way: in the early stages of development there is a lack of trained personnel to frame the development plans. The aid giving countries send in their team of experts who are given key and influential positions in the planning bodies. These experts are the ones who in fact draw up the plans and do so on the lines laid out by the aid giving country. The local experts who hold important positions are chosen on the recommendations of foreign advisers, they are provided with scholarships and receive training in the aid giving countries on the lines which they want them to follow.* Another powerful inducement

*More than 3,500 Pakistanis have received higher education or advanced training abroad under AID project since 1960.

for the local experts to please the aid giving countries is the hope of high salaried and lucrative jobs in international agencies like the World Bank and I.M.F.*

Since the development programme depends heavily on foreign aid the country concerned tries to ensure the maximum aid possible by drawing up plans which they think will meet with the approval of the aid giving countries. The plans are submitted before the Aid Consortium where the advanced countries decide how much aid they will give. Further changes are made in the plan before the actual commitment of funds. If the aid giving countries do not approve of any project it gets no aid and as the under-developed countries are normally incapable of undertaking large projects on their own, such projects are quietly shelved. Through this process the plan conforms closely to the wishes of the aid giving countries. However, if any project which they do not like is undertaken by the under-developed country on its own, the actual disbursement of funds is so controlled that pressure is brought to bear on the country's limited resources thus resulting in completion only of projects approved by the aid giving countries.

So the development strategy chosen or the actual performance of an under-developed country is not an independent phenomenon, as some would have us believe. It is actually determined by the aid giving countries who mould it in the direction they wish, which is that the country should remain dependent on imports of capital goods from the developed countries and not develop a heavy industrial base of its own. To finance these imports it has to export raw materials, light manufactures, and also provide inducement and concessions to foreign investors. All this yields large economic benefits to the developed countries as we shall see in chapter four.

*For example at present, just to mention a few, two ex-Finance Ministers, ex-Chief Economists of both the Planning Commission and the West Pakistan Planning and Development Board, an ex-Adviser to the Government of Pakistan and the ex-Chariman of the Investment Corporation of Pakistan are serving with the World Bank and the IMF.

The Americans make no bones about influencing the policies of the aid receiving countries. In an United States Agency for International Development (AID) Paper read at a conference on foreign aid it is stated that the "existing Government policies, priorities and administrative capacity should not be taken as immutable, but rather be regarded as policy variables."[18] However, it is believed that influence on overall policies can not be effective unless the donor can support the views of an existing group within the recipient country.[19] In this regard it is pointed out that an example of effective influence was the case of import liberalisation in Pakistan which was based on months of discussion with host Government officials, *and the gradual reinforcing of the views of those within the Government who favoured the reform*.[20] (Emphasis added). It is also admitted that "AID is currently exploring new techniques to increase influence on overall and/or sector policies through project lending." However, they have thus far found programme (commodity) assistance the most powerful and flexible form of aid for influencing macro-economic policies.[21] As it is much easier to stop and start it is a more powerful instrument for exerting "leverage."[22] "Leverage may be negative or positive : *aid may be with-held unless certain conditions are satisfied* or additioal aid may be made available if host countries performance achieves specified standards."[23] (Emphasis added).

Technical assistance is another important means for exerting influence. Foreign experts are associated in every sphere,* but the most crucial are those who are attached to the planning organs of the country. These in collaboration with the aid administering agencies literally draw up the economic plans and the development policy of the host country. This is illustrated by a testimony of Prof. Bell (attached to the Pakistan Planning Board) before the United States Senate Foreign

*In 1968 alone, there were over 100,000 experts and volunteers from advanced countries working in the developing countries, financed under officials programs If we also include consultants and others experts supported by private organizations the number would be doubled, (Pearson Commission Report p.51).

Relations Committee. He said "when the Planning Board began to have *reasonable views as to what sort of things made sense to be done in Pakistan* and what sort of things did not make sense, the ICA Mission began to use the information (provided by the Planning Board) to guide them in making their own decisions as to what they wanted to put their money into and what they did not. *I do not mean to imply that they followed without review the opinions of the Planning Board ; but they gave them heavy weight.*" (Emphasis added). This statement reveals that the key decisions were taken not by the Planning Board on the advice of the Aid Mission but rather the other way round.[24] More recently the Harvard Development Advisory Service and the US Aid have continued to work together in directing and influencing planning in the same way.

Beside the Technical Assistance Programme the control exercised by the aid giving agencies by other methods is also considerable. For instance instead of financing the whole of a few selected projects, the aid is distributed over a large number of projects which are being undertaken by the Government of Pakistan. Thus most of our projects come to have an "aid component," which automatically, under the terms of the aid agreements, brings them under the control of US Aid Mission. Thus by providing less than 25 per cent. of the total development expenditure, it acquires control over almost the entire programme.[25]

Control is also exercised through international agencies, like the World Bank and the IMF, over whom United States and other developed countries have complete control. It is useful to work through these agencies as the resentment against following the dictates of another country is reduced when these are cloaked under the name of an international organization. As Prof. Mason says, "it is usually much easier to bring about changes in domestic policies through the mediation of an international agency such as the International Bank or Monetary Fund than through bilateral stabilization agree-

ments in Latin America. The consortium meetings presided over by the International Bank have come to be the most important forums for criticism of the development programmes and policies of India, Pakistan and other countries financed in this manner."[26]

The World Bank also exercises simple and direct controls. It withholds and grants loans according to its opinion of the reliability of the borrower. It sets rigid conditions of control as terms for its loans e.g. the compulsory hiring of foreign consultants approved by the Bank. It also brings pressure to bear on the borrowers to improve the private investment climate. As Prof. Baldwin says "the International Bank of Reconstruction and Development may often withhold loans in a strategic attempt to encourage (blackmail) the governments into changing their policies."[27]*

The ultimate discipline imposed by the rich nations on the poor arises from the stabilization laons made by the International Monetary Fund. A country faced with balance of payment difficulties, after trying all possible emergency measures, as a last resorts turns to the IMF for a loan. The practice of the IMF is to lend to the country virtually on demand upto 25% of the country's quota in the Fund. Beyond this the deficit country has to justify its request for a loan. The IMF sets out stringent and tough conditions before handing out the money to the borrower in distress (though billions of dollars are loaned to United States, Britain etc. without a murmur) and these conditions normally include such measures as : (1) Elimination of controls over imports and exports, devaluation of currency etc. All of which throw the country more at the mercy of the market forces and retard the growth of domestic industry.

---

*For example since 1968 when the persent government of Peru expropriated the assets of International Petroleum company (a subsidiary of Standerd Oil) Peru has been cold shouldered by the World Bank and Inter-American Development Bank, (The Economist, London, 22nd May 1971, p. 92). Chlie another Latin American Country carrying out radical reforms, recieved no World Bank loans or International Development Association credits in 1971-72 (Pakistan Economist 30th September 1972, p. 17). While Pakistan's experience in 1965 and 1971 requires no elaboration.

(2) Implementation of strong monetary and fiscal controls, balanced budgets and wage and price controls, which would also affect the pace of development as well as hurt the lower classes who would feel the burden of increased taxes, wage controls and reduction in welfare expenditure.[28] At the same time prices of raw materials would be reduced making it possible for the developed countries to get them even more cheaply.*

We thus see that the planning machinery and economic policies of the under-developed countries are almost completely under the control of the aid giving countries. This control is exercised directly through their technical experts, aid commitments and disbursements and also indirectly through their agencies like the International Monetary Fund and the World Bank. The development plans, therefore, normally reflect and serve the interests of the advanced industrial countries rather than those of the under-developed countries itself.

*The loss in purchasing power of exports from underdeveloped countries, due to decline in the terms of trade, from 1961 to 1966 was more than 13 billion dollors i. e 38.4% of the total official economic aid received by these countries during this period (UNCTAD, Review of International Trade and Development, 1967, pp. 35-36).

CHAPTER IV

Economic Benefits of Aid to Aid Giving Countries

In this chapter we shall try to identify some of the ways by which the aid giving countries derive direct and/or indirect economic benefits from aid. These can be briefly stated as follows : (*i*) Increased production and employment at home. (*ii*) Higher than international prices charged for commodities under tied aid. (*iii*) Trade creation, and opening up of new markets for their products. (*iv*) Ensuring supply of raw materials and making it easier for private foreign investment to survive and expand.

Increased Employment and Production.

As almost all bilateral aid is tied by source the purchases resulting from it take place in the aid giving country, and this results in increased employment in those countries. It was pointed out by the United States Secretary of State Dean Rusk, in Congressional hearings on Foreign Aid in 1962, that some 7,00,000 jobs depend on the activities of the foreign aid programme.[29] Besides creating employment the aid programme also directly helps the industry. For instance Charles B. Baker the administrative Vice-President of the United States Steel Corporation said, "It is largely due to the operation of our foreign aid programme that the steel industry has managed to escape the full effect of the forces at work in the world market place."[30] Thus is also true for many other industries as can be seen from the table below:

U. S. EXPORTS FINANCED BY AID
1965

Commodity Group.		U.S. Exports Total	U.S. Exports Financed by Aid	Per cent. of Exports Financed by Aid
		(Million $)		
Machinery and Equipment	...	6,302	333	5.3
Iron and steel mill products		689	168	24.4
Chemicals	...	2,037	112	5.5
Motor vehicles, engines and parts	...	1,972	91	4.6
Fertilizer	...	230	70	30.4
Nonferrous metals	...	625	72	11.5
Rubber and products	...	344	33	9.6
Petroleum and products, excluding gas	...	483	36	7.5
Basic textiles	...	571	31	5.4
Railroad transportation equipment	...	146	43	29.5

Source : Charles D. Hyson and Alan M. Srout. "Impact of Foreign Aid on U.S. Exports," *Harvard Business Review*, January-February 1968, p. 71.

In U.S.A. Industry is not the only sector to benefit from the foreign aid programme, it is well known that the government supported export of agricultural products is also substantial. From 1955 to 1966, 17.2 billion dollars i.e. 30% of all agricultural exports, were created by the Foreign Aid Programme. And if the foreign aid sponsored exports were sold in normal channels of trade, the world market prices would drop sharply and thus severely cut the income on the remaining 70% of the exports sold commercially.[31] T.W. Schultz

In his article, "Value of U.S. Farm Surpluses to Underdeveloped Countries", says that the resultant fall in prices would be such that the total earnings from sale of agricultural products would remain unchanged i.e. actual cost of PL-480 Aid, in terms of additional revenue foregone from foreign sales of U.S. farm products, is zero.[32]

The subsidy given to Insurance and Shipping business is also quite substantial. Aid sponsored commodites are, in most cases, required to be shipped by U.S. flag vessels and insured with American Insurance Companies. This result in over charging to the extent of 50 to 100%.* Besides the higher rates charged there are other ways by which such costs are increased, for example exporters can increase shipping and insurance charges by 'packing' the commodity supplied in a particular way. Since under tied aid 'packing' is the option of the exporter, iron ignots which in the case of cash imports would be imported in bulk packing, under tied aid are not shipped in bulk hence increasing the handling, shipping and insurance charges, which depend not only on value volume but also on the number of items.

High Price Commodities under tied aid

In this regard two AID economists point out that "Although AID is not involved in direct subsidization of exports, U.S. procurement policies do in effect provide indirect subsidies to U.S. exporters. This is because some of our tied exports would simply not occur if it were not for foreign assistance financing. This is most easily seen in the case of a number of U.S. commodities that are priced above world levels but which are nevertheless exported because AID funds are restricted for purposes of their purchase. The cost of some commodities we finance may run considerably above world market pricess."[33] This is not limited to U.S. only.

*The New York Times reported on June 13, 1953, that shipping wheat aid to Pakistan in American ships world cost $ 26 per ton as against $ 12 to $ 14 per ton in a foreign ships (H. Alvi and A. Khusro, cited in reference 23, p, 28).

Since all advanced countries give mostly tied aid they thus provide their exporters with an opportunity of charging higher than international prices. Dr. Mahboob-ul-Haq worked out the weighted average price for 10 projects in Pakistan and found it to be 51% higher from the tied source compared to the lowest international bids. He also showed that U.S. prices are generally 40-50% higher than the international prices in the case of most items of iron and steel procured from the U.S. under non-project assistance.[34] (Appendix 2, Tables 1 & 2).

Prof. Edward S. Mason, of Harvard, in his book 'Foreign Aid and Foreign Policy', discusses the various forms of subsidy and notes that it would be impossible to find a quantitative formula that takes them all into account." "But," says he, "I might hazard the guess that if it could be done, it would boil down (sic) the nearly $ 9 billion in total flow of funds from the developed to the under-developed world to a figure in the range of $ 2 billion to $ 3 billion".[35] (Prof. Mason included in his estimate not only the higher prices of tied aid, shipping charges, artificial import and export prices in the franc zone, but also the effect which would be produced by all U.S. non-commercial exports of agricultural products if they were offered for commercial sale).

Recently an example of the extent of over-pricing that is possible come to light during the United States Senate hearings of the sub-committee on monopoly. During the hearings it was revealed that since at least 1961, foreign pharmaceutical compaines in Pakistan have been importing processed drug materials from their American principals against AID loans (repayable in dollars) at prices which, in some cases, have been 7,000 to 8,000 per cent. higher than those obtaining in the international market.[36]

Trade Creation

The bulk of the Aid, contrary to the official figures, is ultimately either military or for immediate political aims. A Library of Congress report estimates that only

"between 1/4 and 1/3 of the $ 115 billion that has been spent for foreign aid since the close of World War II—including food for peace, Export-Import Bank loans, and other categories has been devoted to economic development, as such."[37] President Nixon's task force on International Development also comes to a similar conclusion. It calculated that the security programmes (i.e. Military assistance, Budget support for political purposes and Public safety programmes) accounted for 52% of U.S. foreign assistance in 1969; of the appropriations for economic programmes under the Foreign Assistance Act 26% was actually for security purposes.[38] The countries receiving military assistance are in turn forced to spend increasing amounts from their own resources on defence equipment. As stated by Mr. Sprague, Assistant Secretary of Defence, in 1957, "countries receiving military assistance spent for defence the equivalent of $ 7 for every dollar of military assistance received.[39] Countries receiving U.S. military equipment as aid are encouraged to exclusively use U.S. equipment. This is also more practical as once an army is supplied with a given assortment of equipment, the ammunition and the replacement and expansion requirements will be most efficiently met from the same source. The initial aid is usually in the for of obsolete weapons, which would have been discarded by the U.S. Defence Department in any case, or in the form of surplus agricultural commodities but the resulting purchases are in hard earned dollars of the under-developed country.

Thus the initial aid opens up means for continuing trade. This is not limited to military hardware alone. As Mr. D.E. Bell, Administrator U.S. AID., points out that over and above the immediate impact on U.S. exports and foreign investment, the aid programme, in the process of helping in the economic development of peoples in Asia, Africa and Latin America is acquainting them with U.S. goods, opening up markets for U.S. business and establishing favourable conditions for U.S. private investment abroad."[40] This point is illustrated

by E.R. Black, former President of the World Bank, when he says "replacements and additions for India's railroads are being purchased mainly from the U.S., because Aid-financed locomotives were provided back in the 1950[41].* President Kennedy also recognized the long term implications of U.S. aid. The President cited the cases of Taiwan, Colombia, Israel, Iran and Pakistan as examples of nations whose import patterns had been drastically affected by foreign aid. "These used to be the exclusive market of European countries," Mr. Kennedy said: "Too little attention has been paid to the part which an early exposure to American goods, skills, and American way of doing things can play in forming the tastes and desires of newly emerging countries or to the fact that, even when our aid ends, the desire and need for our products continue, and trade relations last far beyond the termination of our assistance,"[42]

An idea of this change can be had from the fact that before the Second World War only 6% of the imports of Pakistan and India came from U.S. By 1966 this had gone up to 30 to 40% while for Iran and Turkey this figure went up from 8—10% to 20—30%.[43] This concept of trade creation through Aid is also the purpose of PL-480 aid as admitted by the U,S, Agriculture Department : "One of the major objectives of the PL-480 Programe and an important measure of the success of the foreign policy goals is the transition of countries from food aid to commercial trade." The countries cited as examples as to the success of this policy are Japan, Italy and Spain.[44] Possibly becoming slightly tired at the slow pace at which the transition was taking place the U.S. Government since 1968 has given more and more of the PL-480 aid in form of dollar loans and from 1971 all PL-480 purchases are to be made under dollar credits. This gives U.S. the best deal of all. She can now dispose of her agricultural

*Incidentally the prices at which these locomotives were supplied by the U.S. were more than twice the lowest International prices. (New York Times, September 4 and October 9, 1954 ; H. Alvi and A. Khusro cited in reference 83, pp. 26-27).

surpluses at artificially high prices and get paid in dollars, while at the same time she retains control on the rupee funds earned by the Pakistan Government from the sale of these commodities on the local markets, which can be used only for projects approved by U S. Aid.[45]

Private Foreign Investment and Control over Sources of Raw Materials.

Another important function of foreign aid is to exert pressure on the recipient country to allow more private foreign investment, and to preserve and safeguard the existing investment. This is admitted by Mr. D.E. Bell who says that "our foreign aid programmes include a series of measures designed to encourage and assist U.S. private investment in under-developed countries."[46] One such measure is that the country wishing to receive aid has to sign an agreement to this effect with the United States before it can get any aid. These agreements take the form of Investment Guaranty Treaties ; Bilateral Treaties of Friendship, Commerce and Navigation ; etc.

Foreign aid acts as a powerful instrument in ensuring the security of private foreign investment and hence the availability of raw materiels. Nationalization of any foreign investment leads to immediate stoppage of Aid, and may also be followed by more drastic measures if the government concerned does not mend its ways. For example, aid was withheld in the case of Ceylon when it nationalized 63 gasoline stations owned by ESSO and Caltex. Other examples that can be quoted are those of Iran, Guatemala, Cuba, Brazil and Peru (The first three are cases where military action was initiated by the U.S.)

Some may argue that there is nothing wrong with this because they think that private foreign investment is good for the under-developed country, as it provides the much needed capital and the technical know how that goes with it. However, this argument can be rejected on at least three important grounds. Firstly, a large portion of this investment is in the extraction of

raw materials (In 1966 the total private foreign investment, by developed countries in under-developed countries, was $ 30 billion, of this almost half was in petroleum and mining[42]) and this adds very little to the productive capacity and development of the country. Secondly, it is just not true any longer that there is an inflow of capital into the under-developed countries, actually a reverse flow has been taking place for quite some time. Between 1950 and 1965 the total flow of capital on investment account from the United States to the rest of the world, excluding Europe and Canada, was $ 9.0 billion while $ 25.6 billion in profits flowed into U.S. from these countries.[47] Pakistan is no exception to this, from 1964-65 to 1967-68 total private foreign investment (including reinvested earnings) was Rs. 340 million while remittances during the same period were Rs. 530 million.[48] Thirdly, private foreign investment has an important 'indirect influence' on the evolution of the under-developed countries. It flows through a multitude of channels, permeates all of their economic, social, political and cultural life and decisively determines its entire course.[49] It strengthens those groups who are primarily interested in maintaining the *status quo* and who therefore oppose all reforms. Since change and reforms are an essential part of economic development this opposition is a serious obstacle to progress.

Conclusion

We have thus seen that the aid giving countries derive many direct and indirect benefits which are far greater than their investment in the foreign aid program. Also that the actual cost of this programme in real terms to the aid giving countries is very much less than what the official figures convey. This programme not only subsidises sectors of their economy which vitally important in maintaining the high level of income and employment, but it also helps to paeserve their large investments in the under-developed countries. As these investments are mostly in the extraction of raw materials, their preservation is of great importance strategically* and highly beneficial economically. Finally it is important to point out that in this article only the economic benefits have been discussed. Political benefits, however, at times far outweigh the economic benefits but since this would be beyond the scope of the article we have not touched upon them.

It is clear that relying on foreign aid for economic development is basically a shortsighted policy. There may be a short period of apparent prosperity because of it but it will be without any foundation. The aid giving countries will neither allow the basic reforms promised in the People's Party Manifesto which are absolutely necessary nor will they permit the building up of a self-reliant and dynamic economy. Since they wish only to encourage a dependent and subservient economy,

Even the rescheduling of debt is a two edged knife. When the relief period expires in 1974 we will have to pay some 450 million dollars annually in form of debt servicing. This even under most favourable assumptions, means that we will have to pay more than 50% of our total earnings in foreign exchange and more than 45% of the total revenue receipts. Obviously such payments cannot be made. Thus another round of debt rescheduling will be required, with more concessions on our part. In this way we will become still more dependent on the aid giving countries. There is no way out of this trap except by a radical change in policy.

---

*For example 70% of the world oil reserves are in the Middle East and Latin America and out of this U.S firms control more than two third and the rest are controlled mainly by U.K. and other developed countries.

APPENDIX 2

TABLE I

INSTANCES OF HIGHER PRICES UNDER TIED CREDITS IN CASE OF NON-PROJECT ASSISTANT

Sr. No.	Description of Items	Lowest Quotation from Tied Source (U.S.A.)	Lowest Quotation from Other Sources (indicating country)	Percentage Difference (3)−(4)÷(4)
1.	Channels	$ 172.60	$ 106.73 (Japan)	62
2.	Angles (equal)	$ 171.51	$ 96.06 (Japan)	79
3.	Angles (unequal)	$ 164.70	$ 119.42 (U.K.)	38
4.	Plates	$ 154.71	$ 102.34 (Japan)	51
5.	Tees	$ 207.35	$ 121.15 (U.K.)	71
6.	Sheets	$ 161.99	$ 113.50 (Japan)	43
7.	Billets	$ 172.22	$ 91.98 (Sweden)	87
8.	Wheels and axle assemblies (per assembly)	$ 794.10	$ 308.70 (Japan)	157
9.	Galvanized iron pipes (1¼″ dia, per 100 running feet).	Rs. 147.28	Rs. 94.91 (Germany)	55
10.	Corrugated iron sheets	Rs. 1,132.88	Rs. 868.49 (Japan)	30
11.	Mild Steel hex	Rs. 1,275.60	Rs. 700.00 (Continent & Japan)	80
12.	Steel tool high speed 18% tungsten squares	Rs. 16,984.00	Rs. 9,900.00 (Continent & Japan)	72
13.	Steel tool high speed 22% tungsten squares	Rs. 23,096.00	Rs. 12,280.00 (Continent & Japan)	88
14.	Rails 60 Lbs. 39′ long	Rs. 921.60	Rs. 573.10 (Continent & Japan)	61
15.	Steel plates of 3/16″×4′×8′	Rs. 797.44	Rs. 494.69 (Japan)	61
16.	Steel plates of 5/16″×4′×20′	Rs. 797.30	Rs. 294.14 (Germany)	170

All prices C & F per ton unless indicated otherwise.

Source : "Tied Credits—A Quantitive Analysis," by Dr. Mahbub-ul-Haq in *Capital Movements and Economic Development*, Edited by J. H. Adler.

APPENDIX I

PAKISTAN BALANCE OF PAYMENTS

1960—61 to 1972—73

Rs. (Million) $ (Million) W. Pak.

	1960-61	61-62	62-63	63-64	64-65	65-66	66-67	67-68	68-69	69-70	70-71	70-71	71-72	72-73
A. Payments ...	3296	3579	3900	4519	5386	5910	7145	7226	6863	7242	8030	—	—	1285
(1) Merchandize (f.o.b.) ...	2611	2672	2970	3426	4174	4197	5249	5192	4575	4999	5640	755	623	776
(a) Capital Goods ...	1166	1421	1690	1860	2291	2230	2373	2470	2285	2374	—	395	272	231
(b) Raw Material for capital goods ...	549	460	411	634	690	450	730	517	557	423	—	80	67	170
(c) Consumer Goods ...	580	457	563	598	630	852	1391	1256	920	897	—	80	127	180
of which Food ...	—	—	—	—	—	(224)	(277)	(547)	(144)	(445)	—	(38)	(88)	(120)
(d) Raw Material for consumer Goods ...	316	334	306	334	563	665	755	949	813	1305	—	200	157	195
(2) Freight and Insurance ...	194	302	313	365	429	427	490	516	476	536	—	—	—	
(3) Invisibles ...	328	421	352	357	383	875	890	950	1104	863	1400	—	—	
(4) Technical Assistance** ...	63	64	77	128	100	—	—	—	—	—	—	—	—	
(5) Debt Servicing ...	100	120	188	243	300	411	516	568	708	798	990	189	131	509
(6) Repayment of short-term food credits ...	—	—	—		—	—	—	—	—	47	—	—	—	

B. Receipts	1960-61	61-62	62-63	63-64	64-65	65-66	66-67	67-68	68-69	69-70	70-71	70-71	71-72	72-73
	3296	3579	3900	4519	5386	5910	7145	7226	6863	7242	8030	—	—	1285
(1) Own Earnings	2286	2384	2748	2785	3025	3415	3486	3651	4200	4302	4500	—	683	720
(i) Merchandise Export* ..	1877	1920	2248	2271	2413	2687	2752	2841	3124	3143	3500	420	597	618
(a) Manufactured Products	—	—	—	—	750	1062	1254	1402	1678	1868	—	267	314	334
of which Jute & Cotton Manufactures	(422)	(389)	(409)	(456)	(508)	(822)	(887)	(986)	(1108)	(1388)	—	(140)	(162)	(194)
(b) Primary Commodities	—	—	—	—	1721	1707	1572	1548	1548	1383	—	152	283	284
of which Raw Jute & Cotton	(1067)	(1033)	(1249)	(1219)	(1257)	(1264)	(1170)	(1217)	(1135)	(984)	—	(57)	(163)	(178)
(ii) Invisibles ...	409	464	500	514	612	728	734	810	1078	1159	850	—	96	102
(2) Foreign Grants and Loans	943	1087	1391	1690	1978	2691	3150	3388	2958	2715	3100	596	364	466
(a) Project Assistance ...	375	546	657	914	1057	1268	1273	1515	1511	1212	1248	—	228	227
(b) Indus/Tarbela ...	—	—	—	—	—	446	321	412	397	302	420	—		
(c) Technical Assistance**	63	64	77	128	100	—	—	—	—	—	—	—	—	—
(d) Commodity Assistance	505	477	657	630	821	557	952	705	827	814	882	—	75	147
(e) PL—480 ...	—	—	—	—	—	420	437	756	223	387	350	—	52	83
(f) Food grants & Short-term Gredits ...	—	—	—	—	—	—	167	—	—	—	200	—	—	—
(3) Foreign Private Investment ...	90	90	81	90	100	87	92	103	147	73	80	—	9	9
(4) Changes in Gold and Foreign Exchange Reserves ...	—55	97	—308	201	207	—312	470	121	—301	34	350			
(5) Shert-term movements and errors and omissions	32	—79	—12	—256	76	29	—53	—37	—141	118		—	—	—
*Less Freight adjustment	—47	—45	—33	—26	—58	—82	—74	—109	—102	—108	—			

**Invisible payments and project assistance during the Third Plan Period include Technical Assistance.

***Some Columns in certain years have been ieft blank as figures for these years are not available

Source : Pakistan Planning Commission.

TABLE II

INSTANCES OF HIGHER PRICES UNDER TIED CREDITS IN CASE OF PROJECT ASSISTANCE

Sr. No.	Name of the Project	Lowest Quotation from Tied Source (Country)	Lowest Quotation in International Bidding (Country)	Percentage Difference between Tied Source & International Bid. (3)–(4)÷(4)	Name of Equipment
(1)	(2)	(3)	(4)	(5)	(6)
1.	Baluchistan Collieries	France	Germany, Japan, U.K., Czechoslovakia, Denmark	87	Centrifugal pump, shovel loaders, under ground locomotives, haulage engines, rails, ventilation tubes, air compressors.
2.	Table salt manufacture plant	France	Germany, U.K.	71	Complete Plant.
3.	Khanpur Sugar Mills	France	U.K.	61	Complete Plant.
4.	Village electrification and power distribution	Italy	Belgium, Germany, Yugoslavia, Japan, Swedan	63	Steel poles, aluminium conductors, wire insulators, hydraulic compressors grid stations.
5.	Eastern Chemical	Japan	U.K.	73	Urea formaldehyde package boiler.
6.	Hard-board Industries	Japan	Germany	123	Complete Plant.
7.	Khulna Rice Mill	Japan	Germany	120	Rice milling machinery.
8.	Karachi Port Trust	Japan	Netherlands	39	60 ton self-propelled floating crane.
9.	Nawab Brothers Steel Plant	Japan	Germany	39	Plant for manufacturing steel house.
10.	Karachi Port Trust	U.K.	Netherlands	33	Twin-screw bucket dredgers.
11.	Karachi Ship Yard and Engineering Works	U.K.	Germany	57	Propeller Plant, Pipe line fittings engine lubricating pump.
12.	Nylon Twine Plant	U.S.A.	Germany	61	Complete Plant.
	Weighted average for the above projects			51	

Source : "Tied Credits—A Quantitative Analysis" Dr. Mahbub-ul-Haq in *Capital Movements and Economic Development*. Edited by J. H. Adler.

REFERENCES

1. Pakistan Economic Survey, 1971-72.
2. Qureshi, A. I., Pakistan Economist, Oct. 28, 1972, p. 14.
3. The Pakistan Times, Lahore, September 23, 1970.
4. Election Manifesto of the Pakistan People's Party, 1970, p, 8.
5. Annual Plan, 1972, Pakistan Planning Commission, Islamabad, pp. 10 15.
6. Chenery, H. B , and A M. Strout, "Foreign Assistance and Economic Development", American Economic Review, September 1966, pp. 685-691.
7. Baqai, M., and I. Brecher, "Foreign Aid Requirements: A Critique of Aid Projections with Special Reference to Pakistan", Pakistan Development Review Winter 1969, p. 381.
8. Rehman, M.A., ' Doubts on Foreign Aid", Forum, Dacca, 12th September 1970, p. 8.
   (*a*) Rehman M.A. "Foreign Capital and Domestic Savings: A Test of Haavelmo's Hypothesis with Cross-Country Data", Review of Economics and Statistics, February 1968.
   (*b*) Landau, L , Determinants of Savings in Latin America", Memorandum No. 13, Project for Quantitative Research in Economic Development Centre for International Affairs, Harvard University.
9. Memorandum for the Pakistan Consortium 1970-71, Planning Commission, Government of Pakistan, p. 4.
10. Haq, M U "The Strategy of Economic Planning Oxford University Press, Karachi, 1966, pp. 25-26.
11. Griffin, K.B., "Financing Development Plans in Pakistan", Pakistan Development Review, Winter 1965, p. 6?0.
12. Same Memorandum as cited in reference 9, p. 6.
13. Pearson, L.B., "Partners in Development", Report of the Commission of International, Development: Praeger, New York, 1969, pp. 87-88.
14. Rehman, M.A., "The Pakistan Pespective Plan and the Objective of Elimination of Dependence on Foreign Assistance", Pakistan Development Review, Autumn 1967, p. 414.
15. Pearson, L B , op cit., p. 74
16. Committee on Foreign Affairs, House of Representatives, Report on Foreign Policy and Mutual Security Program, Washington, D.C., 1957, p. 39. Ac quoted in Harry Magdgoff, Monthly Review November 1968, p. 28 (Hereafter H M.).
17. Measures to Ensure Effective Use of AID" written in the AID, Washington, D.C., Presented at an International Conference he'd jointly by the Ditchley Foundation and the Overseas Development Institute. June 1966, Published in "Effective Aid", by the Overseas Development Institute Ltd., London, 1967, p. 87.
18. *Ibid*. p. 11.
19. *Ibid*. p. 96.
20. *Ibid*. p. 94.
21. *Ibid* p. 21.
22. *Ibid*. p. 29.
23. Alvi, H., and A Khustro, "Pakistan and the Burden of U.S. Aid". Pakistan Today, London 1962, Reprint published by Syed and Syed, Karachi, 1965, p. 32.
24. *Ibid*, p. 26.
25. Mason, E S., "Foreign Aid and Foreign Policy", New York, 1964, pp. 47-48 (H.M. p. 45).
26. Baldwin, D.A., "Economic Development and American Foreign Policy, 1943-62" Chicago, 1966, p. 36 H.M. p. 47).

27. Magdoff, H., Monthly Review, November 1968; p. 50.
28. Secretary Dean Rusk's testimony in Senate Hearings on Foreign Aid, 1962, as quoted in David A. Baldwin, "Foreign Aid and American Foreign Policy" New York, 1966, p. 197.
29. From an address delivered at the National Foreign Trade Conventiod, New York, November 18, 1964, as quoted in Charles D. Hyson and Alan M. Strout, "Impaet of Foreign Aid on U.S. Exports". Harvard Business Review, January-February 1968, p. 63 (H. M. p. 32).
30. Magdoff, H. op. cit., pp. 33-34.
31. Schultz, T.W., "Value of U.S. Farm Surpluses to Underdeveloped Countries" Journal of Farm Economics, Vol. 42, 1960. Reprinted in Jadish Bhagwati and Richard S. Eckaus, ed., Foreign Aid, Pengiun Books Ltd., England, 1970. pp. 308-310.
32. Article cited in reference 29, p. 69 (H.M. p. 35).
33. Haq, M.U , of thc Pakistan Planning Commission "Tied Credits—A Quantitative Analysis". in J.H. Adler ed., Capital Movements and Economic Development, International Economic Association, London, 1967, pp. 329-330.
34. Mason, E.S., op. cit., p. 14 (H.M. p. 35).
35. Hearings held by the United States Senate Sub-Committee on Monopoly, chaired by Senator Gaylord Nelson of Wisconsin, The Pakistan Times, Lahore, September 23, 1972.
36. A Report prepared by the Legislative Reference Service of the Library of Congress "Some Important Issue in Foreign Aid", Washington, D.C., 1966, p. 23 (H.M. pp. 25-26).
37. "U S. Foreign Assistance in the 1970 ; A New Approach". Report to the President from the Task Force on International Development Washington, D.C,. March 1970, p. 5.
38. Testimony before the U.S. Senate Foreign Relations Committee on March 28, 1958, As quoted in Hamza Alvi and Amir Khusro, op. cit., p. 21.
39. United States Economic Assistance to Pakistan, Report Issued by United States Agency for International Development, Pakistan, April 1971, p. 39.
40. Speech of Mr. D. E. Bell, Administrator of AID, delivered in Pittsburgh on October 21, 1963, as quoted in David A Bladwin, Foreign Aid and American Foreign Policy", New York, 1966, p. 190.
41. Black, E.R., "The Domestic Dividends of Foreign Aid", Columbia Journal of World Business, Fall 1965, p. 25 (H.M. p. 36).
42. Montgomery, J. D., Foreign Aid in Internotional Politics" Englewood Clifs, New Jersey, 1967, p. 20. The quotation is from a New York Times item, September 18, 1963. (H.M. p. 36).
43. Mogdoff, H. op. clts., 36-37).
44. Economic Research Service, U.S. Deportment of Agriculture, 12 Years of Achievements under Public Law, 480, Washington, D. C., November 1967, p. 8. (H.M. p. 33).
45. Same report as cited in reference 39, p. 20.
46. Same speech as cited in reference 40, p. 190.
47. Person, L.B., op. cit., p 376.
48. Frank, K.A.G., "Capitalism and Underdevelopment in Latin America" New York 1969, pp. 305-306.
49. Chaudhry S.A. "Private Foreign Investment in Pakistan", Pakistan Development Review, Spring 1970, p. 111.
50. Baran, P.A., "The Political Economy of Growth" New York, 1968, p. 194. (For a more detailed discussion on the effects of private foreign investment see pp. 177-198).